

Message Text

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INFO USLO PEKING

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMEMBASSY PARIS

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SUBJECT: PRC ECONOMY FACES INFLATIONARY PRESSURES

REF: HONG KONG 13604

SUMMARY: TO MINIMIZE THE INFLATIONARY PRESSURES GENERATED BY THE RECENTLY AUTHORIZED WAGE RISE, THE PRC IS STRESSING INCREASED PRODUCTION AND IMPROVED MARKETING OF AGRICULTURAL AND LIGHT INDUSTRIAL GOODS FOR THE CONSUMER MARKET. RESPONSIBILITY FOR TIGHTENING THE OPERATION OF THE STATE MARKETING SYSTEM AND REDUCING THE EXTENT OF BLACK MARKET ACTIVITIES IS PLACED SQUARELY ON PARTY COMMITTEES, AND COMMERCIAL DEPARTMENTS WITH THE AID OF ENTERPRISES AND COMMUNES THEMSELVES AND THE PLA. THE USE OF ADDITIONAL ANTI-INFLATIONARY MEASURES SUCH AS ENCOURAGEMENT OF SAVINGS THROUGH MANIPULATION OF MARKET SUPPLIES OR INTEREST RATES AS WELL AS CHANGES IN PRICE POLICY MAY BE UNDER CONSIDERATION BY THE LEADERSHIP. END
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SUMMARY.

1. THE PROBLEM OF MINIMIZING THE INFLATIONARY EFFECTS OF THE RECENTLY AUTHORIZED WAGE RISE IS ONE OF THE MOST PRESSING THE PRC WILL FACE IN THE ENSUING MONTHS. ALTHOUGH THE LEADERSHIP APPEARS TO HAVE WAITED TO ANNOUNCE THE RISE UNTIL CLEAR SIGNS OF RECOVERY

APPEARED IN THE ECONOMY, A TRADE-OFF HAD TO BE MADE BETWEEN THE PRIMARY AND URGENT NEED FOR INCENTIVES TO BOOST PRODUCTION AND THE INEVITABLE LAG BETWEEN THE SURGE OF ADDED PURCHASING POWER AND THE ABILITY TO SUPPLY THE GOODS TO ABSORB IT. OPTING TO ATTACK FIRST THE PROBLEM OF POOR WORKER MORALE HENCE LOW PRODUCTIVITY, FOR POLITICAL AS WELL AS ECONOMIC REASONS, THE PRC IS NOW CONFRONTED WITH THE TASK OF MAKING HARD INVESTMENT DECISIONS ON THE TYPES AND RELATIVE PROPORTIONS OF OFSTAPLES AND DURABLES TO BE MADE AVAILABLE IN THE NECESSARILY ENLARGED CONSUMER BASKET. IT MUST TACKLE, AS WELL, THE PROBLEM OF ALLEVIATING THE SERIOUS INEFFICIENCIES IN THE DISTRIBUTION SYSTEM WHICH HAVE LONG EXACERBATED IMBALANCES IN SUPPLY AND DEMAND.

2. IT IS LIKELY THAT EXPENDITURES ON FOODSTUFFS WILL ABSORB A PRIORITY SHARE OF THE INCREMENT TO DISPOSABLE INCOME GENERATED BY THE WAGE RISE. NATIONWIDE, THIS COULD BE A CONSIDERABLE SUM. AT PRESENT, PRODUCTION TARGETS FOR COMMODITIES IN DAILY USE REMAIN UNFULFILLED AND, IN PARTICULAR, THE SUPPLY OF PORK, POULTRY, EGGS AND OTHER NON-STAPLE FOODS IS INADEQUATE TO SATISFY DEMAND (PEOPLE'S DAILY, NOVEMBER 15). REDUCTIONS IN GRAIN AND EDIBLE OIL RATIONS PERSIST AS A RESULT OF

ONLY FAIR SUMMER HARVESTS. CLEARLY, THE BURDEN OF SUPPLY LIMITED OFFICIAL USE

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INCREASES WILL REST HEAVILY ON THE AGRICULTURAL SECTOR, HENCE THE STRESS BY THE LEADERSHIP ON MAXIMIZING ALL AVAILABLE MANPOWER RESOURCES DURING PEAK PRODUCTION PERIODS AND ON BOOSTING SIDELINE PRODUCTION.

3. THE PRESSURE OF ADDED PURCHASING POWER WILL ALSO FALL HEAVILY ON LIGHT INDUSTRY. AS IN THE AGRICULTURAL SECTOR, THE CURRENT RATE OF GROWTH IS INSUFFICIENT TO SATISFY BOTH INTERNAL AND EXTERNAL DEMAND. IN ORDER TO INCREASE THE SUPPLY OF LIGHT INDUSTRIAL PRODUCTS TO THE DOMESTIC MARKET, THE PRC LEADERSHIP HAS CALLED NOT ONLY FOR ACCELERATED GROWTH BUT ALSO FOR WIDESPREAD REGIONAL DISPERSION OF INDUSTRIES PREVIOUSLY CONCENTRATED IN COASTAL AREAS (NCNA, NOVEMBER 12).

4. A THIRD OUTLET FOR THE INCREMENT TO DISPOSABLE INCOME, AND THE MOST DIFFICULT AREA IN WHICH TO PREDICT THE BEHAVIOUR OF THE NEW MAOIST MAN, IS SAVINGS. THE CHINESE HIGH PROPENSITY TO SAVE IS VIRTUALLY AN ETHNIC STEROTYPE. HOWEVER, THE PRINCIPAL BASIS FOR IT, AT LEAST IN RECENT DECADES, HAS PROBABLY BEEN INADEQUACIES IN THE QUANTITY AND VARIETY OF CONSUMER GOODS AVAILABLE THE AMOUNT OF

EXCESS PURCHASING POWER ABSORBED BY SAVINGS WILL BE A CRITICAL FACTOR IN THE PRC'S ABILITY TO MINIMIZE INFLATION AND A MAJOR SOURCE OF ADDED FUNDS FOR INVESTMENT. THE LEADERSHIP UNDOUBTEDLY HOPES TO BE ABLE TO RECYCLE SOME PROPORTION OF PURCHASING POWER IN THIS WAY. HOWEVER, PRECISELY HOW MUCH CONTROL THE AUTHORITIES WILL ATTEMPT TO EXERCISE OVER THIS PROCESS, PERHAPS, FOR EXAMPLE, THROUGH RESTRICTION OF THE SUPPLY OF THOSE CONSUMER DURABLES IN GREATEST DEMAND OR THROUGH INTEREST RATE POLICY, IS UNCLEAR AT PRESENT.

5. IN ADDITION TO COMMODITY SUPPLY PROBLEMS, THE PRC MUST ALSO DEAL WITH SERIOUS INADEQUACIES IN ITS DISTRIBUTION SYSTEM AND THE DIFFICULTY OF CONTROLLING LIMITED OFFICIAL USE

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BLACK MARKET ACTIVITIES. PRECISELY WHAT PROPORTION OF THE IMBALANCE IN COMMODITY SUPPLY AND DEMAND IS TRACEABLE TO POOR MARKETING IS NOT CLEAR, BUT RECENT STATEMENTS BY PARTY CADRES AND MEDIA COMMENTATORS SUGGEST THAT IT IS CONSIDERABLE. LACK OF SUPERVISION AND COORDINATION OF MARKETING WORK BY PARTY COMMITTEES AND POOR MANAGEMENT PRACTICES IN COMMERCIAL DEPARTMENTS HAVE BEEN BLAMED FOR ALL TOO FREQUENT SITUATIONS IN WHICH SHORTAGES IN RETAIL MARKETS PERSIST DESPITE HIGH WHOLESALE INVENTORIES, AS WELL AS FOR POOR INTERFLOW OF GOODS BETWEEN URBAN AND RURAL AREAS SUCH THAT COMMUNES LACK MANUFACTURES, THE CITIES, STAPLES AND FARM SIDELINE PRODUCTS. A RECENT PEOPLE'S DAILY (NOVEMBER 15) COMMENTARY ENTITLED "MAKE GOOD MARKETING ARRANGEMENTS TO PLEASE THE PEOPLE" ACCUSED PARTY COMMITTEES AND COMMERCIAL DEPARTMENTS OF THE BLATANTLY QY-MARXIST PRACTICE OF SEPARATING DISTRIBUTION AND PRODUCTION AND CALLED FOR ELIMINATION OF SUCH "NEGATIVE IDEAS" AS "THERE IS NOTHING THAT COMMERCIAL DEPARTMENTS CAN DO IF PRODUCTION DEPARTMENTS FAIL TO TURN OUT ENOUGH PRODUCTS."

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6. APART FROM POOR MARKETING PRACTICES WITHIN THE STATE-CONTROLLED NETWORK, THE PRC MUST COPE WITH THE WIDESPREAD AND LIVELY TRADE WHICH OPERATES WITHOUT THE COLLECTIVE SYSTEM. THIS IS NOT CONFINED TO URBAN AREAS. STATE FARMS AND COMMUNES HAVE RECENTLY COME UNDER ATTACK FOR PERSISTENT BLACK MARKET ACTIVITIES. AT A MEETING OF THE HUPEH CCP STANDING COMMITTEE, SECOND SECRETARY CHEN PEI-HSIEN STATED, "IT IS IMPERATIVE TO DO A GOOD JOB IN RECALLING THE CURRENCY ISSUED. WE MUST REDUCE THE PURCHASING POWER OF THE COLLECTIVES AND GUARD AGAINST SPENDING MONEY WITHOUT PLANS." (WUHAN PROVINCIAL SERVICE, NOVEMBER 13). THE PEOPLE'S DAILY (NOVEMBER 15) CALLED FOR SAFEGUARDING THE "CENTRALIZED MANAGEMENT OF THE SOCIALIST MARKET" THROUGH ACTION AGAINST EMBEZZLERS, GRAFTERS, SPECULATORS AND PROFITEERS WHO "TRY TO FAN UP DISORDER ON THE MARKET" AND BY ELIMINATING PRACTICES SUCH AS "SELLING COMMODITIES THROUGH THE BACK DOOR, REDUCING PRICES SO AS TO DIVIDE THE COMMODITIES AMONG A FEW PEOPLE AT A LOW COST" AND "GOING TO THE COUNTRYSIDE ON LIMITED OFFICIAL USE

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ONE'S OWN TO PROCURE FARM AND SIDELINE PRODUCTS FOR ONE'S OWN PROFIT." THE CRACKDOWN ON ILLEGAL ACTIVITIES MAY BE SEVERE: ALONG WITH GOVERNMENT ORGANS, AND STATE-RUN AND COLLECTIVE ENTERPRISES, PLA UNITS ARE CALLED UPON TO "FIRMLY CORRECT UNHEALTHY TRENDS."

7. THE PRC RECOGNIZES THAT TIGHTENING THE COLLECTIVE MARKETING SYSTEM AND REDUCING THE EXTENT OF ILLEGAL DOMESTIC TRADE ACTIVITIES WILL REQUIRE A CARROT AS WELL AS A STICK. NOT WISHING TO DAMPEN WHAT HAD BEEN EUPHEMISTICALLY REFERRED TO AS THE COMMUNE MEMBERS "SOARING ENTHUSIASM (IN) VIGOROUSLY SELLING AND DISTRIBUTING"

FARM AND SIDELINE PRODUCTS, THE LEADERSHIP HAS
ACKNOWLEDGED THE NECESSITY FOR IMPROVING THE PRIMARY
SECTOR TERMS OF TRADE THROUGH CHANGES IN PRICE POLICY.
IN HIS REPORT TO THE NPC STANDING COMMITTEE, VICE PREMIER
YU CHIU-LI SPECIFIED THE NEED TO RAISE THE NOW RELATIVELY
LOW PRICES OF FARM PRODUCTS (HONG KONG 13604). ACTION
ON THIS FRONT IN THE NEAR FUTURE WOULD NOT BE UNEXPECTED.
SHOESMITH

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